

## ***Budget Message***

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## *A Message from the Governor*

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To the People of Massachusetts:

Lieutenant Governor Murray and I are pleased to file our budget recommendations for fiscal year 2014.

We have proposed a balanced, responsible budget that makes investments in education, innovation, and infrastructure that will grow jobs and opportunity in the near-term, and strengthen our Commonwealth in the long term. We have also proposed a series of reforms to change the way government does business to achieve savings, improve performance and renew trust in government.

We have made great progress to responsibly address our long-term liabilities. We have taken steps to control growth in health care costs. And we have taken steps to address the deficiencies in our transportation system. Yet, even with these reforms the state budget is challenged to make critical investments in our economy, particularly those in education and transportation, while meeting our obligation to protect the most vulnerable residents in our communities.

Our fiscal year 2014 budget calls for such investments and pays for them with a thoughtful and responsible revenue proposal aimed to help rationalize our state collections. The result will be a more progressive, equitable and transparent tax structure. I do not submit this proposal lightly. I understand that many households in Massachusetts continue to struggle under the economic consequences of the Great Recession. But I firmly believe that investing meaningfully today in education and transportation will significantly improve our economic tomorrows.

Each of us has a stake in our future, and each of us should contribute to improving it. I therefore propose broad-based tax changes to generate new revenue. My consideration of the many options has been guided by three principles. First, new revenue must be comprehensive, allowing us to pay our bills, maintain what we have, and invest in strategic development calculated to foster economic growth. Second, new revenue must be dedicated, particularly in the case of transportation, targeted to specific investments and projects so we maintain the discipline of our plan over time. And third, new revenue sources must be competitive and fair, so that taxes remain within range of our neighbors and we limit the impact the most economically vulnerable. With those principles in mind, our budget proposes to restructure our tax system to place less reliance on the sales tax and more reliance on the income tax. This budget supports investments in education, innovation, and infrastructure.

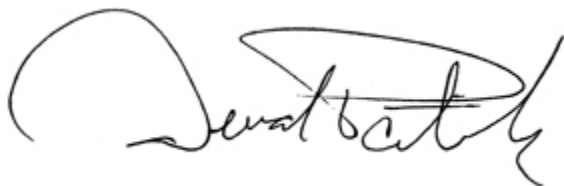
In fiscal year 2014, we will continue to use the budget as a vehicle to reform state government.

This year the budget is presented in a new program format for the first time. It will provide comprehensive information on how taxpayer dollars are being spent, making the budget more accessible and transparent than ever. We are also launching MassResults, the next phase of the Commonwealth's efforts to make state government more transparent, effective and efficient. Led by the Office of Commonwealth Performance, Accountability and Transparency (CPAT), this initiative builds on the work done to date to change the way state government does business.



It will include the publication of strategic plans alongside the new program budget, which will provide residents of the Commonwealth unprecedented information about how their tax dollars are being spent and what the Administration is looking to achieve with this funding.

While we have made great strides we have had to make difficult choices to balance this budget. These choices impact families, businesses, lives. We understand that. But in the long run, these choices allow us to be responsible to the next generation.

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## ***A Message from the Secretary of Administration and Finance***

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Governor Patrick and Lieutenant Governor Murray ran for office in 2006 with a bold agenda for helping every resident and region of Massachusetts achieve prosperity, driven by individual initiative and private sector innovation, with targeted public investments helping to create the conditions for success.

It quickly became evident that the path to the full realization of that vision would be long and challenging. The Governor and Lieutenant Governor inherited a deep structural deficit, the highest per capita debt load in the country, and huge unfunded liabilities for public retirees. Moreover, fragmented governance and chronic underinvestment and inefficiency left too many of our roads, bridges and rail systems in a state of poor repair – and too many parts of Massachusetts lagging behind in access to infrastructure essential to unlocking economic development.

These problems were soon compounded by a global economic downturn, which caused our state's tax revenues to drop by over \$3 billion in just one year and removed over \$20 billion in total from our revenue base (relative to typical tax growth) over the past four years.

Even with these daunting challenges, the Governor and Lieutenant Governor kept their rudder true. As opposed to indiscriminately slashing state spending to “check the box” on balancing the annual budget, they instead made the room in the budget to fund critical investments in the Commonwealth's people and future. They provided historic levels of Chapter 70 K-12 education aid; doubled our capital investment budget; fully funded health care reform; jump-started life sciences research; and launched innovative programs to reduce youth violence.

Much of the budget space for these initiatives was derived from the Patrick-Murray Administration's efforts to spend state dollars more wisely and efficiently. There has been a relentless focus and a string of successes on health care cost containment, procurement reform, and energy efficiency enhancements. There have been new performance management initiatives designed to get more out of the state workforce. And there has been incredible energy dedicated to reforms that improve the long-term fiscal picture of governments at every level, including pension reform, municipal health insurance reform, and transportation restructuring.

Far from standing pat, the Governor and Lieutenant Governor continue to push an aggressive agenda on these fronts. Just this month, they laid out a series of additional reforms to reduce redundant fees and unnecessary paperwork and bureaucracy for businesses, consolidate public housing agencies to realize efficiencies, and achieve up to \$20 billion in savings in state and local retiree health care over thirty years so we can sustain good benefits for valued career public employees.

And throughout, the state budget has been balanced without gimmicks, and with the prudent use of reserves and federal fiscal aid for states. Even after fulfilling its intended purpose of cushioning the fiscal blow of major recessions, our Rainy Day Fund has been re-built to among the highest levels in the nation. The Patrick-Murray Administration's budget filings themselves have been recognized as models of transparency and insight.

It is thus no surprise that we have emerged from the recession faster than most other states, and with the strongest credit ratings in our history. Massachusetts is moving forward. State government has been re-energized.

Having said this, any honest assessment must recognize how far we still must travel to achieve our state's great potential. I know this is Governor Patrick's and Lieutenant Governor Murray's view.

Our schools are the best in the nation – and that is not enough when we have additional opportunities to eradicate the achievement gap, make college more affordable, and get the very youngest among us off to a great start towards lifelong learning. Our economy is among the strongest of the states – and that is not enough when we can convert a patchwork transportation infrastructure showing the strains of age to a world-class system that fuels job creation throughout the Commonwealth.

This budget reflects the Governor's and the Lieutenant Governor's restlessness to tackle the unfinished business of promoting opportunity and prosperity in every corner of the Commonwealth – and I am extremely proud to help shepherd it forward with my team at the Executive Office for Administration and Finance.

The budget would begin a course of groundbreaking new investments in education, transportation, and innovation that will transform Massachusetts' economy in the short-term and over the long haul – giving the people and employers throughout our state the complete set of tools they need to succeed.

It also maintains the strong foundation of public investments that have already made us nation leaders in student achievement, health insurance coverage, veterans' services, energy efficiency and providing a safety net for our most vulnerable citizens.

And it is a fiscally sound budget. It employs fewer one-time resources than the FY13 budget, preserves our state's Rainy Day Fund at over \$1 billion, and is structurally solid based on credible, long-term fiscal modeling.

Undergirding these objectives is the proposed use of new tax revenues. This budget stands for the proposition that we must strive for more for the Commonwealth – and finance it honestly and sustainably. This requires raising additional revenues to support additional, high-yield public investments in education, transportation, and innovation. The revenue proposal included with this budget accomplishes these purposes in a way that improves the fairness of the tax code, protects our economic competitiveness and channels needed amounts to infrastructure.

We at the Executive Office of Administration and Finance are extraordinarily proud of the substance of this budget and – above all – so grateful to Governor Patrick and Lieutenant Governor Murray for supplying its vision and ambition. It is a privilege to work for leaders like them with big dreams, big hearts, and the courage to act on them.

We are also very proud of the appearance of this budget! It is offered in a new "program budget" format that makes it much easier to understand what taxpayer dollars in fact support – and will moving forward be the chassis for reporting on whether agencies have accomplished goals identified in strategic plans likewise released with this budget.

We would additionally like to extend our thanks to our colleagues throughout the Executive Branch who have helped us craft this budget recommendation. We similarly look forward to working with our counterparts in the Legislature on the enactment of a fiscal year 2014 budget in the months to come.

I personally want to express my deep gratitude to the team at the Executive Office for Administration and Finance for their incredibly hard work in helping to fashion this budget recommendation – and particularly for their efforts to help me get up to speed quickly (and their patience with me as I did so). Special thanks to Budget Director Michael Esmond for his leadership in assembling yet another superb product.

Finally, I am deeply indebted to former Secretary Jay Gonzalez for the support and encouragement he has given me in taking the helm at Administration and Finance and particularly in assisting with the crafting of this budget recommendation.

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## ***Program Based Budgeting Message***

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Welcome to the Fiscal Year 2014 (FY14) Governor's Budget Recommendation. Building the state budget each year is an important process within state government. It impacts everyone. It reflects our shared values. Finally, it provides the fiscal blueprint by which state revenues are translated into real programs and services that serve the Commonwealth's residents.

But while the final budget numbers are important, the method by which a budget is developed and presented is vital in shaping those decisions and engaging with the people government serves. For too long, the presentation of the Budget has been more about satisfying accounting requirements than providing comprehensive information on how your taxpayer dollars are being spent. The Patrick-Murray Administration has been commended for its record in making the budget more accessible and transparent, but there is still more to do.

That is why the Governor's FY14 Budget Recommendation is being presented in a different way than those that have come before it.

- Past budgets have always shown how much money is going to various state government departments and accounts. *This budget sets out in greater detail, and with more information than ever before, what those investments actually support.*
- Past budgets have always provided legislative language prescribing how certain funds could be used. *This budget describes the actual programs that are being supported by state resources.*
- And finally, past budgets have always shown just a piece of overall state investments. *This budget shows how programs are supported by all funding types – whether from annual budgetary appropriations, federal grants, trust funds or capital investment.*

Changing the way budgets are developed and presented is a key part of reforming state government – making it more open, more accountable and more focused on the results that matter to the people it serves.

### **What is new about this year's budget?**

This year, the Governor's Budget Recommendation for FY14 is presented in a new program format for the first time.

- The traditional account presentation of the budget answers the question: how much are we spending and what agency is doing the spending?
- The program budget answers the question: what are we doing with the dollars we spend?

### **What is the difference in these two views of the budget?**

In presenting the budget recommendation in program format, the Administration is making clear to the public what its tax dollars are funding in terms that we all can understand. Each program is shown with all sources of funding for that program which are either appropriated or administered by the Commonwealth. This "all funds" approach gives a clearer picture of the full value of our spending for each program.

### **How are we linking budgets to performance?**

With this Budget, the Patrick-Murray Administration also announces the launch of MassResults, the next phase in its efforts to make state government more effective and efficient. Led by the Office of Commonwealth Performance, Accountability and Transparency (CPAT), this initiative builds on the work done to date to change the way state government does business.

A critical first step in the MassResults program is comprehensive strategic planning across the Executive Department. Alongside the budget this year, each of the eight Secretariats of state government has published a two-year strategic plan. These plans set out the strategic goals of the Patrick-Murray Administration through 2014, the key actions that will be pursued to achieve them and the outcome measures that will be used to determine whether these goals are being met. This has never been done before across the Executive Department.

The publication of strategic plans alongside the new program budget enables citizens of the Commonwealth to see not only what their resources are supporting but also what this Administration is looking to achieve with this funding. This represents an unprecedented level of accountability, but it is only a start.

Through the MassResults program, the Patrick-Murray Administration will continue to integrate public investments and performance management. A year from now, alongside the FY15 Governor's Budget Recommendation, each Secretariat will publish a performance report setting out how well it has performed against its goals. Similarly, for select programs, performance outcome measures will be developed that enable the results achieved by those programs to be assessed. This information will be used to inform future budget and policy decisions and help improve program effectiveness. By using "performance-based program budgeting," as it is known, state government will improve planning, budget decision-making and the overall management of the vital services people rely on.

### Investments in Education, Transportation and Innovation

The Governor's FY 2014 budget proposes new investments in education, transportation infrastructure, and innovation to support economic growth and opportunity throughout the Commonwealth. These investments are critical to continue to strengthen Massachusetts' economy and workforce allowing each to compete in the 21<sup>st</sup> century global economy.

The Governor proposes \$553 M in new education investments across a spectrum of programs and services focused on early education, K-12, and post-secondary education. As a result of the Administration's strategic investments in education and innovation to date, and cutting-edge education reform efforts like the Achievement Gap Act of 2010, the Commonwealth's students perform at the top in national, and in some cases, international assessments of academic achievement. The proposed new investments will build upon these accomplishments while addressing the continued challenges of a segment of Massachusetts' students and workers who continue to face major barriers to achievement.

- The Governor's \$131 M investment in FY 2014 in the early education and care system will provide funding to work to eliminate the Department of Early Education and Care's (EEC) current birth to age-five waitlist; expand initiatives to ensure the highest educational quality among providers of early education and care; assist early educators and providers with attaining higher levels of proficiency, skill, and quality; increase educational programs and supports for parents and family members to further engage them in their child's success; and expand efforts to provide comprehensive support services to children and their families.
- The Governor proposes \$226 M in increased Chapter 70 local aid which will hold every district harmless for aid; keep every district at foundation levels of spending; finish the Chapter 70 equity reforms of 2007; guarantee an increase of \$25 per pupil for every district; and increase the assumed cost of the average out-of-district special education placement for school districts. In addition, the Governor proposes a \$5 M in FY 2014 for a targeted expanded learning time initiative, allowing for middle school students in high-need schools to have the additional time and resources they need to build differentiated systems of learning, and ensuring that students have access to enrichment programs that will enhance their ability to succeed both in and out of the classroom. The proposal also includes an additional \$9 M in funding for comprehensive supports to students and their families in Gateway Cities.
- Finally, the Governor's proposal includes \$152 M in FY 2014 to make college more affordable and accessible, particularly for lower- and middle-income students, and ties campus funding to performance and outcomes by:
  - Significantly increasing funding to the MASSGrant program, which provides financial assistance for students demonstrating the greatest need.
  - Expanding the Completion Incentive Grant Fund which allows students enrolled at certain campuses to receive a maximum of \$8,000 over four years for credits earned towards their degree.
  - Providing annual increases for the community college funding formula developed as part of the Governor's community college proposal, totaling \$20 M in FY 2014.
  - Furthering the Commonwealth's support for funding at least 50 percent of the educational costs at the University of Massachusetts.

In addition to the Patrick-Murray Administration's \$13 B capital investment over 10 years in transportation projects in the Commonwealth, a \$269 M increase is included in the Governor's FY 2014 operating budget recommendations, which begin to fund the transportation needs highlighted in the *"The Way Forward: A 21-st Century Transportation Plan"*. In FY 2014, this investment will:

- Eliminate the MBTA's structural operating deficit, which has been solved in recent years through the use of one-time, unsustainable funding sources;
- Provide modest MBTA service enhancements such as possibly expanding evening hours, restoring weekend service in areas that have been cut and improved customer service;
- Take a significant step forward in discontinuing the decades-old practice of using borrowed funds (bonds) to pay for personnel and other operating costs; and
- Sustainably fund Regional Transit Authorities (RTAs) by ending the practice of funding the RTA operating budgets in arrears, thereby eliminating the need for the RTAs to take on short-term debt in order to fund annual operating costs which, in turn, increases costs to the taxpayers and customers.

Finally, the Governor's budget provides \$74 M in additional funding for innovation and job creation, including the following:

- This budget invests \$25 M in the Massachusetts Life Sciences Center (MLSC), an increase of \$10 M above FY 2013, and further assumes that \$25 M in tax incentives will be distributed to companies expanding their life sciences activities and creating jobs within the Commonwealth. This funding will enable MLSC to provide research grants and accelerator loans to researchers and early-state companies, a direct investment in business expansion and job growth in this critical sector.
- MassDevelopment's Advanced Manufacturing Futures Program was created in the 2012 Jobs Bill to engage in small-to-medium-enterprise lending, drive workforce development, and provide competitive grants and contracts to facilitate growth and competitiveness in the field of manufacturing. The FY 2014 budget will invest \$18.75 M from gaming license revenue in this new program to begin this crucial work. The Administration estimates that a total of 1,856 jobs will be created or retained through this investment over the next five years.
- The MassWorks Infrastructure Program is a one-stop shop for municipalities seeking public infrastructure funding that supports economic development and job creation. This budget will expand the program and allow for new competitive projects over a minimum of two years with an investment of \$19.25 M from gaming license revenue. With this expansion, local cities and towns will see up to \$88.1 M in infrastructure-related public construction activity during the 2013 construction season through the MassWorks Infrastructure Program. The Administration estimates this program would create or retain an estimated 2,927 jobs over the next two years.

## Strategic Goals in Serving our Commonwealth

The new investments described above are needed to drive economic growth and further many of the strategic goals of the Patrick-Murray Administration. The following is a summary of the four top goals and the ways in which this budget supports them.

***Closing the Achievement Gap*** – To continue taking steps to close the achievement gap and ensure that all students, regardless of their zip code, have the opportunity to achieve academic, career and lifelong success, the Administration is making an unprecedented investment in education. The Administration will invest a total of \$6.79 B in education in FY 2014, including over \$550 M in new targeted investments. This investment includes increased funding in achievement gap related programs, including: moving towards universal access to high quality early education programs from birth to age five; enhancing the quality of early education programs and the effectiveness of the early educator workforce; doubling the available funding for English language learners and related programming; and dedicating new resources to support the expansion of locally-designed and implemented initiatives in the Gateway Cities. The Administration will also increase K-12 Chapter 70 funding by \$226 M, completing the 2007 Chapter 70 reforms while also ensuring that all school districts

receive increased funding of at least \$25 per pupil. The FY 2014 budget will quadruple funding for MASSGrant, providing \$112 M in new funds to allow more students in Massachusetts have the opportunity to enroll in and succeed in college. Completing the comprehensive investment in education, \$57 M will be directed to the University of Massachusetts, the State Universities, and Community Colleges to enable the campuses to deliver high-quality educational and extracurricular opportunities to students while mitigating the need to increase tuition and fees.

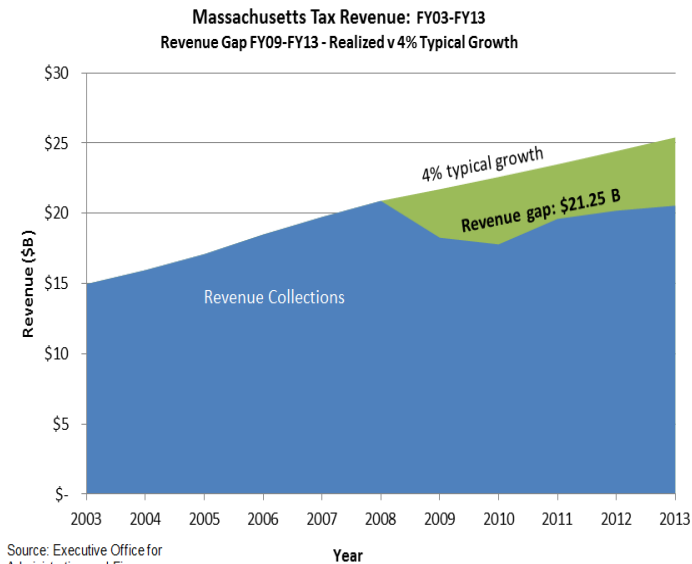
**Job Creation** – The Governor’s FY 2014 budget includes significant new investments in education and transportation, which will increase employment opportunities, link job seekers with expanding industries, and continue our record of success in leveraging education, innovation, and infrastructure to grow jobs. Building on past success to lower the unemployment rate and put residents back to work, the Governor is proposing targeted investments to improve the Commonwealth’s competitive business climate, especially in innovative fields, including: completing the “Last Mile” of the MassBroadband 123 project to extend affordable broadband access in western and north central Massachusetts; advancing innovation economies such as the life sciences and advanced manufacturing through research grants and accelerator loans; and funding an infusion of new MassWorks local infrastructure grants.

**Controlling Health Care Costs** – The Commonwealth of Massachusetts is a national leader in ensuring access to affordable, high quality health care. Massachusetts has achieved the highest rates of insurance coverage in the country, but increasing health care costs remain an underlying challenge for government, employers and individuals. Containing the growth of health care costs is a key priority of the Administration. In August 2012, the Commonwealth passed Chapter 224, comprehensive cost containment legislation aimed at containing and reducing costs while maintaining high quality care. The FY 2014 budget funds initial implementation of Chapter 224. It also funds implementation of the Affordable Care Act in Massachusetts, including the expansion of MassHealth and enhanced subsidies to keep coverage for low-to-moderate income adults affordable through the Health Connector.

**Positive Youth Development and Violence Prevention** – The FY 2014 budget supports many initiatives to provide opportunities for positive youth development and violence prevention through summer job programs, youth violence prevention funding, and performance-driven services in communities with the greatest demand for intervention. The Administration is employing a first-in-the-nation new model of pay-for-success contracts to reduce youth recidivism and continuing investments in the Safe and Successful Youth Initiative, a multi-layered and proven strategy for reducing youth violence in the Commonwealth.

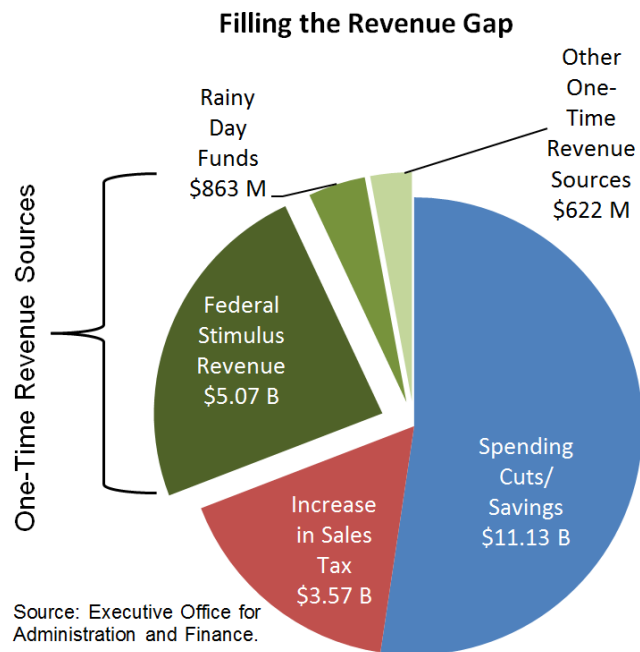
## **Raising Revenue for Critical Investments**

The Patrick-Murray Administration inherited a structurally imbalanced budget, the highest per capita debt in the country, a lack of transparency around state budgeting, and the absence of sound fiscal policies and a long-term framework for spending and borrowing. Additionally, when Governor Patrick took office, the state faced large unfunded liabilities for the pension system and retiree health insurance benefits. Moreover, chronic under-investment in our transportation infrastructure left our roads, bridges, and railways crumbling and portions of the state severely underserved.



These problems were compounded when Massachusetts – like virtually every other state in the nation – experienced an unprecedented fiscal collapse during the 2008-09 global economic downturn. This culminated in a one-year drop in tax revenues of over \$3 B and an estimated cumulative loss in revenue of \$21.25 B between FY 2009 and FY 2013 (compared to typical revenue growth patterns and the typical minimum level of growth required to maintain government services).

The Patrick-Murray Administration and the Legislature took a number of steps to address these fiscal challenges. Governor Patrick has maintained balanced budgets throughout difficult fiscal times, relying principally on spending cuts and savings from reforms and efficiencies. He instituted – and has adhered to – sound fiscal policies to ensure the state budget is structurally balanced. The Governor also tackled long-term fiscal liabilities, achieving pension reforms and proposing additional changes to retiree health care benefits, which in combination would save the state and municipalities \$25 B over the next 30 years. As a first step towards a better transportation system, Governor Patrick increased transportation investments by billions of dollars and secured over \$500 M in savings to date through a series of reforms, including consolidating the state's transportation organizations in order to operate the state's highway, bridge, and transit systems more effectively and efficiently.



On account of these actions, Massachusetts has achieved the highest credit ratings in its history under this Administration – AA+ from all three rating agencies – saving taxpayers \$100 M in interest costs over the next 30 years. The state also now has among the highest rainy day fund balances in the country.

This strong track record of fiscal reform and savings initiatives has enabled the Patrick-Murray Administration to continue to make some key investments in education, infrastructure and innovation, but it has not had the resources to make the level of investments in these areas required to support long-term growth and opportunity across the Commonwealth. Indeed, in many areas the level of state services and investment has been scaled back significantly in order to live within even more constrained resources. Aid to cities and towns has been reduced, impacting local services such as police, fire, and public libraries. Valuable state investments in state parks, economic development, affordable housing, and college affordability have all been curtailed.

We cannot meet the Commonwealth's needs by cutting deeper or depleting the Rainy Day Fund. Sustainably financing critical services and investments that are essential to long-term prosperity

requires new revenue. We have a generational responsibility to ensure a sustainably financed Commonwealth for our future prosperity.

## Summary of Spending Changes from FY 2013

The table below outlines changes in major spending categories in the Governor's FY 2014 budget proposal.

Annual Change in Budgetary Spending by Selected Area, FY 2013 vs. FY 2014 \$s in millions			
Spending Category	FY 2013 Estimated	FY 2014 House 1	Change
Investments in Education:			
Early Education:	499.3	630.3	131.0
K-12 Programs and Services:	4,711.5	4,978.5	267.0
Higher Education:	976.5	1,128.5	152.0
Investments in Transportation (Does not include \$25 M in off-budget gaming-funded investments):	348.9	592.9	244.0
Investments in Innovation:	165.2	239.2	74.0
Health Care:	13,355.6	14,549.8	1,194.2
Safety Net (non Health Care):	4,298.0	4,434.2	136.3
Legal Obligations:			-
Debt Service:	2,366.5	2,428.4	61.9
Pensions:	1,552.0	1,630.0	78.0
All Other Spending:	5,846.1	5,843.0	(3.0)
<b>TOTAL ANNUAL SPENDING CHANGES</b>	<b>34,119.6</b>	<b>36,455.0</b>	<b>2,335.4</b>
<b>TOTAL ANNUAL SPENDING CHANGES (EXCLUDING PENSIONS)</b>	<b>32,567.6</b>	<b>34,825.0</b>	<b>2,257.4</b>

In addition to the new investments, the Governor's FY 2014 budget preserves funding for the state's health care and safety net programs. These programs and services have witnessed record-high levels of demands for services as the economy has slowly recovered from the 2008 recession, and many residents still rely on these programs to help support their daily lives. Massachusetts health care spending also will increase to reflect increased enrollment associated with the federal Affordable Care Act, which will be effective on January 1, 2014. These increased costs will be more than offset by reduced spending elsewhere and additional revenues available to the Commonwealth in FY 2014 and beyond as the federal ACA is gradually implemented. All other areas in the budget, including the state's obligations for debt service and employee pensions, increase next year by \$136.9 M in combined additional spending.

Annual Change in Budgetary Resources, FY 2013 vs. FY 2014 (\$s in millions)			
Revenue Category	FY 2013 Estimated	FY 2014 House 1	Annual Change
Projected Base-Line Tax Collections (excluding one-time FAS 109 Delay in FY13):	21,450.0	22,334.0	884.0
Transfer of Capital Gains in Excess of Maximum for Budgetary Purposes to Rainy Day Fund:	(100.0)	(37.0)	63.0
Transfer for Annual Pension Contribution:	(1,552.0)	(1,630.0)	(78.0)
Transfers of Tax Revenue to MBTA, SBA, Workforce Training Fund and OPEB Liabilities:	(1,490.7)	(1,529.0)	(38.3)
Federal Reimbursements:	8,158.4	8,611.8	453.4
Departmental Revenues:	3,348.2	3,417.8	69.6
Transfers from Non-Budgeted Sources:	1,749.5	1,657.7	(91.9)
Prior Year Funds Used to Support Current Year Non-Recurring Budgetary Spending:	173.4	28.0	(145.4)
One-Time Sources for Recurring Costs (including eliminating Carry-Forward and FAS 109	820.1	513.0	(307.1)
<b>Other New Revenues Supporting the Budget:</b>			
Increased Tax Revenue (Includes Motor Fuel Taxes):	-	791.0	791.0
Revenue Anticipation Notes:		400.0	400.0
Gaming Budgetary Revenues:	-	83.0	83.0
Employer Responsibility Health Care Assessment:	-	94.0	94.0
Modernize Bottle Redemption:	-	24.0	24.0
Enhanced Tax Enforcement:	-	27.0	27.0
Amazon Agreement and Expansion of Hotel Tax to Rental Units:	-	29.0	29.0
<b>CHANGE IN BUDGETARY RESOURCES (INCLUSIVE OF RESOURCES FOR THE PENSION CHANGE):</b>			<b>2,257.4</b>
Additional Off-Budget One-Time Resources:	99.0	10.0	(89.0)
<b>TOTAL CHANGE, FY 2013 vs FY2014</b>			<b>2,168.4</b>

## Revenue Initiatives and Other Budget Solutions

**Tax Receipts:** Baseline tax revenue growth is forecast to grow by \$884 M after accounting for one-time revenues collected in FY 2013 that will not be collected by the state in FY 2014, bringing total tax receipts to \$22.334 B. After adjusting for inflation, this revenue is still roughly \$2 B less than the level of taxes collected in FY 2008, the last fiscal year that immediately preceded 2008 economic downturn. A portion of the tax revenues are not available for the budget (\$37 M) corresponding to the state's fiscal policy to limit the amount of capital gains revenue included within the state budget. Finally, transfers of tax revenues for pension and other dedicated purposes, such as the Massachusetts School Building Authority and the Massachusetts Bay Transportation Authority, are expected increase by \$116 M in FY 2014.

**New Tax Revenue:** The Governor's budget calls for \$791 M in additional tax revenues this year through restructuring a variety of provisions within the state tax code. This funding plan assumes that \$400 M of the anticipated new tax revenue in FY15 and FY16 is borrowed to support investments in FY 2014 when the full-year revenue impact of the tax law changes will not be realized.

**Non-Tax Revenues:** Total non-tax revenues in FY 2014 total \$13.7 B, up from \$13.3 B in FY 2013. Growth in these revenues is mostly due to the increased federal revenues the state receives for operating the federal Medicaid program (in Massachusetts known as MassHealth). In addition, modest increases are proposed in departmental revenues and other budgetary transfers from non-budgeted sources, such as the state lottery fund.

In addition, other budgetary revenues in FY 2014 include approximately \$83 M in gaming revenues projected to be collected next year as new gaming facilities are licensed under the 2011 expanded gaming legislation. The state will also retain \$94 M in employer assessments currently collected to support health care costs for laid-off workers to help support its restructured subsidized health insurance programs starting in 2014. Other revenue changes include \$24 M from modernizing the state's existing bottle redemption law to include bottled water and sports drinks, \$27 M in tax



enforcement initiatives at the Department of Revenue and \$26.2 M associated with an agreement with the online retailer, Amazon, to begin to collect sales tax for goods sold in Massachusetts and from the expansion of the hotel surcharge to rental properties.

**One-Time Resources:** In early 2012, the Patrick-Murray Administration released its new long-term fiscal policy which called for limiting the use of one-time solutions to operating budget shortfalls to levels that are sustainable within long-term forecasted tax revenues. In agreement with that policy, the Governor's budget proposes to utilize only \$555 M in one-time resources next year, down from \$919 M in FY 2013. The largest one-time solution in next year's budget will be the use of \$400 M in rainy day funds. However, the state is forecast to continue to have a balance in excess of \$1 B and remain one of the highest rainy day funds in the nation.

## **Building on Record of Reforms**

In order to address a reduced workforce and the need to control costs, the Administration has explored options to help limit cuts to critical state services through reforms and other efficiencies. The Administration continues to demonstrate that the state is stretching each tax taxpayer dollar further and is relentlessly pursuing all avenues for changes that improve performance. Governor Patrick has signed into law several bold reforms that change the way government does business, including pension reform, municipal health reform and health care cost containment. The FY 2014 budget builds on these efforts and proposes more reforms, including:

- Reforming our antiquated retiree health benefits system to save \$20 B over 30 years and sustainably ensure future generations receive adequate benefits;
- Achieving savings at MassDOT by installing All Electronic Tolling, which will allow all traffic to travel at normal highway speed through the tolling areas;
- Ensuring there is "no wrong door" to accessing state services, by expanding the network of Family Access Centers, a one-stop center that provide services targeted to the needs of families in their host community;
- Reducing businesses health care costs by 23 percent by eliminating the Fair Share Contribution Program and Medical Security Programs while maintaining employer responsibility to maintain quality, affordable health care for all residents by implementing an "employer responsibility contribution";
- Modernizing the funding formula for community colleges to strengthen the role these schools play in preparing students for jobs in the state's rapidly evolving innovation economy;
- Implementation of necessary funding changes required under the federal Affordable Care Act (ACA) to expand access to health care;
- Providing a simple and transparent formula for local aid using a combined measure of property values and income to calculate each municipality's relative ability to provide essential local services;
- Reorganizing the state public housing system through regionalization, achieving savings through economies of scale in management while simultaneously improving services to our most disadvantaged populations;
- Enhancing oversight of the Commonwealth's sterile compounding pharmacies by reorganizing the Board of Pharmacy and imposing fines for violations;
- Leveraging innovation and technology to achieve efficiencies and savings, such as moving to electronic traffic citations rather than the traditional paper citations to reduce traffic stop times, improve officer and citizen safety, and create savings by eliminating a manual data compilation process;
- Providing a series of innovative tools for municipalities, including a one-stop online grant portal for municipalities, the Citizens Connect smartphone application, state support for municipal

information technology challenges, upgraded Geographic Information System services, and municipal purchasing assistance; and

- Reviewing all state regulations on businesses to ensure that we employ the correct balance in ensuring corporate responsibility while not overburdening the regulated community.

